

## Message Text

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TAGS: EIND, ECE

SUBJECT: POSITION PAPER FOR OECD STEEL MEETING

REF: KATZ-BOERNER TELECON

FOR DEPUTY ASSISTANT SECRETARY KATZ

1. BECAUSE OF SHORTAGE OF TIME, WE WERE UNABLE GET AGREE-  
MENT AMONG ALL AGENCIES ON FINAL MERGER OF COMPETING  
VERSIONS OF OECD STEEL MEETING POSITION PAPERS. SUBSTAN-  
TIVELY, THERE IS NO SIGNIFICANT DIFFERENCE, HOWEVER, WITH  
THE EXCEPTION OF ISSUE OF LONG-TERM STUDY PROPOSAL, WHICH  
STR SUGGESTS US ENDORSE (TEXT OF STR PAPER PARA ON THIS  
ISSUE IN 3 BELOW).

2. FOLLOWING IS TEXT OF STATE-PREPARED POSITION PAPER  
(FEKETEKUTY WILL BE CARRYING STR VERSION WITH HIM FROM  
WASHINGTON):

QUOTE ISSUE. ON OCTOBER 23, THE EC COMMISSION FORMALLY  
REQUESTED THAT THE OECD SECRETARY-GENERAL ORGANIZE CONSUL-  
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TATIONS ON STEEL WITHIN THE FRAMEWORK OF THE OECD TRADE

PLEDGE. THE CONSULTATIONS ARE SCHEDULED TO TAKE PLACE IN PARIS ON NOVEMBER 13-14.

BACKGROUND. THE COMMISSION REQUEST FOR FORMAL CONSULTATIONS ON STEEL TAKES PLACE AGAINST A BACKGROUND OF RISING CONCERN IN INDUSTRY AND OFFICIAL CIRCLES IN EUROPE--PARTICULARLY FRANCE--OVER THE EFFECT OF STEEL IMPORTS ON THEIR DOMESTIC INDUSTRY. IN 1974, EC STEEL IMPORTS TOTALED 5.5 MILLION METRIC TONS (MMT). TOTAL EC STEEL PRODUCTION WAS 156 MMT. EC EXPORTS OF STEEL IN 1974 AMOUNTED TO 26.4 MMT. SINCE THEN, THERE HAS BEEN SUBSTANTIAL GROWTH IN EC STEEL IMPORTS BEGINNING IN JUNE 1975: AS OF JUNE, IMPORTS WERE 4 PERCENT OF OVERALL EC STEEL PRODUCTION.

RESUMPTION IN DC INDUSTRIAL ACTIVITY HAS BEEN SLOW. IN ADDITION, THERE HAS BEEN A MAJOR INCREASE IN RECENT YEARS IN THIRD-COUNTRY STEEL CAPACITY, MUCH OF IT DESIGNED FOR EXPORT. DURING 1974 AND MOST OF 1975, STEEL CONSUMERS IN THE EC AND ELSEWHERE REDUCED THEIR CONSUMPTION AND DREW DOWN INVENTORIES. STEEL STOCKHOLDERS HAVE BEGUN TO REBUILD INVENTORIES TO SOME EXTENT BY BUYING CUT-RATE AND PLENTIFUL STEEL FROM EXTRA-EC SOURCES. MAJOR EC SUPPLIERS IN 1973-1974 WERE: EASTERN EUROPE, JAPAN, SWEDEN, AUSTRIA, AND SPAIN.

EC COMMISSION POSITION. THE COMMISSION IS UNDER INTENSE PRESSURE FROM ITS DOMESTIC STEEL INDUSTRY TO DO SOMETHING ABOUT STEEL IMPORTS, SINCE IT HAS BEEN AMONG THE HARDEST HIT BY THE RECENT RECESSION. BOTH PRODUCTION AND CAPACITY UTILIZATION HAVE SUFFERED. PRODUCTION COSTS HAVE RISEN UNTIL RECENTLY, WHILE PRICES HAVE DROPPED.

THE COMMISSION POSITION FOR THESE CONSULTATIONS IS STILL UNCLEAR. THERE ARE REPORTS THAT THE COMMISSION MAY BE INVOKING THE OECD TRADE PLEDGE AS A QUOTE SAFETY VALVE UNQUOTE IN ORDER TO MOLLIFY THE STEEL INDUSTRY AND TO AVOID INVOKING PARIS TREATY PROVISIONS WHICH PERMIT THE COMMUNITY TO SET PRODUCTION QUOTAS, MINIMUM PRICES AND/OR QUANTITATIVE REDUCTIONS ON IMPORTS. LATEST REPORTS FROM LIMITED OFFICIAL USE

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OUR MISSION TO THE EC SEEM TO INDICATE THAT THIS READING OF COMMISSION INTENTIONS IS CLOSEST TO THE TRUTH. THE COMMISSION MAY ALSO BE HOPING THAT THE MEETING ITSELF WILL CAUSE EXPORTERS TO THE EC TO VOLUNTARILY INCREASE THEIR EXPORT PRICES TO THE EC. ON THE OTHER HAND, IT MAY BE SEEKING INTERNATIONAL CONCURRENCE IN RESTRICTIVE MEASURES; E.G., AN QUOTE ORDERLY UNQUOTE MARKETING ARRANGEMENT OR A QUOTE GENTLEMAN'S AGREEMENT. UNQUOTE

ALTERNATIVELY, THE COMMISSION MAY BE SEEKING TO MEET THE CONSULTATIONS REQUIREMENTS ENVISAGED UNDER THE OECD TRADE PLEDGE BEFORE TAKING UNILATERAL ACTION UNDER THE APPROPRIATE ARTICLES OF THE ECSC.

AS IS OFTEN THE CASE, THE EC IS NOT OF ONE MIND. THE GERMANS HAVE TOLD US THAT ANY MEASURES TAKEN AT THIS TIME SHOULD BE AS LIMITED AS POSSIBLE BOTH IN DURATION AND IN SCOPE. THE FRENCH GOVERNMENT, ON THE OTHER HAND, HAS PUBLICLY DECLARED THAT A QUOTE MANIFEST CRISIS UNQUOTE EXISTS, AND THAT THE EC SHOULD ASSUME THE RESPONSIBILITIES THE TREATY OF PARIS DEFINES FOR IT. INTERESTINGLY ENOUGH, FRANCE IS NOT SUFFERING AS MUCH AS OTHER MEMBER STATES.

US POSITION. THE CORE OF OUR POSITION FOR THE NOVEMBER 13-14 TALKS SHOULD BE TO PROBE AND CLARIFY THE COMMISSION'S INTENTIONS THOROUGHLY. GIVEN THE GENERAL AGREEMENT THAT STEEL'S PRESENT PROBLEMS ARE SHORT-TERM AND CYCLICAL IN NATURE, WE BELIEVE THAT HASTY AND ILL-CONCEIVED ACTIONS BY THE EC WILL DAMAGE THE MTN NEGOTIATIONS. WE ARE ALSO CONCERNED WITH THE RIPPLE EFFECTS ANY RESTRICTIVE EC MEASURES MIGHT HAVE IN DIVERTING STEEL EXPORTS TO THE EC FROM THIRD COUNTRIES INTO OTHER MARKETS SUCH AS THE US.

THUS, WE NEED A FULL EXPOSE OF THE COMMISSION'S VIEWS AND INTENTIONS AT THE FORTHCOMING CONSULTATIONS. WE INTEND TO EXAMINE THE RATIONALE THEY PRESENT, OBJECTIVELY BUT RIGOROUSLY. WE SHOULD POSE A SERIES OF QUESTIONS TO THE COMMISSION REPRESENTATIVES DURING THE CONSULTATIONS, IN PARTICULAR THE FOLLOWING:

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-- CAN THE COMMISSION QUANTIFY THE MAGNITUDE OF ITS PROBLEM? HOW DO CURRENT AND EXPECTED STEEL IMPORTS COMPARE WITH PREVIOUS LEVELS, DOMESTIC PRODUCTION, DOMESTIC CONSUMPTION, INVENTORIES AND SIMILAR FIGURES FOR OTHER COUNTRIES?

-- ARE PARTICULAR STEEL CATEGORIES HARD-HIT, OR IS THE PROBLEM GENERAL AND ACROSS-THE-BOARD?

-- WHICH MEMBER COUNTRIES ARE MOST SERIOUSLY AFFECTED--AND TO WHAT DEGREE?

-- HAVE MEMBER COUNTRIES UNDERTAKEN--OR DO THEY CONTEMPLATE UNDERTAKING--SPECIFIC NATIONAL CORRECTIVE ACTIONS?

-- HAS THE COMMISSION CONSULTED WITH OTHER MAJOR EXPORTING COUNTRIES?

-- IF THE EC MOVES TO RESTRICT IMPORTS, WHAT WILL BE THE IMPLICATIONS FOR OTHER COUNTRIES, PARTICULARLY REGARDING EXPORTS TO THE EC WHICH MAY BE DIVERTED TO OTHER MARKETS?

SHOULD THE COMMISSION PROPOSE JOINT INTERNATIONAL ACTION, OR INDICATE UNILATERAL ACTION IT IS CONTEMPLATING TAKING, THE FOLLOWING QUESTIONS SHOULD BE POSED:

-- HOW WOULD THE EC JUSTIFY ANY RESTRICTIONS UNDER THE GATT? WHAT ARE THE LONG-TERM IMPLICATIONS FOR PROGRESS IN THE MTN?

-- OVER THE LONGER-TERM, WOULD RESTRICTIONS ON STEEL IMPORTS INTO THE EC LEAD TO A MORE COMPETITIVE STEEL INDUSTRY?

-- GIVEN THE SIZE AND IMPORTANCE TO THE EC STEEL INDUSTRY OF EXPORTS OF STEEL, IS THERE ANY LIKELIHOOD THAT OTHER STEEL IMPORTERS MAY RESTRICT EC STEEL EXPORTS?

-- IF MINIMUM STEEL PRICES ARE SET IN THE EC, WILL NOT EC STEEL EXPORTERS RISK RUNNING AFOUL OF ANTI-DUMPING LIMITED OFFICIAL USE

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STATUTES IN IMPORTING COUNTRIES?

-- WHAT IS THE EXPECTED DURATION OF ANY MEASURES PROPOSED BY THE EC? UNQUOTE

3. FOLLOWING IS LANGUAGE CONTAINED IN STR PAPER ON OECD LONG-TERM STUDY: IN ADDITION TO THE NEED TO STUDY THE CURRENT SHORT-TERM PROBLEM OF THE STEEL INDUSTRY, IT IS THE US VIEW THAT A DETAILED ANALYSIS OF THE LONG-TERM PROSPECTS OF THE INTERNATIONAL STEEL INDUSTRY WOULD BE USEFUL IN HIGHLIGHTING THE TYPES OF SOLUTIONS WHICH MIGHT BE SOUGHT FOR SIMILAR SITUATIONS IN THE FUTURE. ALTHOUGH WE FEEL THAT ANY LONG-TERM SOLUTION TO THE STEEL INDUSTRY'S PROBLEMS SHOULD BE NEGOTIATED IN THE CONTEXT OF THE MTN, THE US DEL MAY SUGGEST THAT THE OECD UNDERTAKE AN EXAMINATION OF THE LONG-TERM OUTLOOK FOR THE INDUSTRY WITH PARTICULAR EMPHASIS ON ANALYZING THE CONDITIONS OF TRADE IN THIS INDUSTRY. INGERSOLL

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